

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
METCALFE COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Metcalfe County Sheriff as of April 22, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,122,055 for the districts for 2004 taxes, retaining commissions of \$87,697 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,026,768 to the districts for 2004 Taxes. Taxes of \$7,430 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Eliminate The Deficit In The Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Don Butler II, Metcalfe County Judge/Executive

Honorable Rondal Shirley, Metcalfe County Sheriff

Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the Metcalfe County Sheriff's Settlement - 2004 Taxes as of April 22, 2005. This tax settlement is the responsibility of the Metcalfe County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Metcalfe County Sheriff's taxes charged, credited, and paid as of April 22, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2005 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Don Butler II, Metcalfe County Judge/Executive
Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Eliminate The Deficit In The Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 9, 2005

METCALFE COUNTY
 RONDAL SHIRLEY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 22, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 147,359	\$ 327,708	\$ 809,372	\$ 288,119
Tangible Personal Property	18,659	39,323	102,486	166,727
Intangible Personal Property				12,082
Fire Protection	1,516			
Franchise Corporation	33,875	72,242	183,109	
Oil and Gas Property Taxes	228	507	1,252	446
Penalties	1,372	3,026	7,482	2,729
Adjusted to Sheriff's Receipt	(534)	(1,158)	(2,878)	(1,033)
Gross Chargeable to Sheriff	<u>\$ 202,475</u>	<u>\$ 441,648</u>	<u>\$ 1,100,823</u>	<u>\$ 469,070</u>
<u>Credits</u>				
Exonerations	\$ 912	\$ 2,026	\$ 5,004	\$ 1,783
Discounts	2,122	4,645	11,566	6,775
Delinquents:				
Real Estate	3,778	8,352	20,627	7,343
Tangible Personal Property	113	238	620	320
Intangible Personal Property				25
Oil Property	11	24	60	21
Uncollected Franchise	<u>3,690</u>	<u>3,427</u>	<u>8,479</u>	
Total Credits	<u>\$ 10,626</u>	<u>\$ 18,712</u>	<u>\$ 46,356</u>	<u>\$ 16,267</u>
Taxes Collected	\$ 191,849	\$ 422,936	\$ 1,054,467	\$ 452,803
Less: Commissions *	<u>8,441</u>	<u>17,545</u>	<u>42,179</u>	<u>19,532</u>
Taxes Due	\$ 183,408	\$ 405,391	\$ 1,012,288	\$ 433,271
Taxes Paid	183,289	399,246	1,011,185	433,048
State Penalty				19
Refunds (Current and Prior Year)	<u>17</u>	<u>37</u>	<u>92</u>	<u>33</u>
Due Districts as of Completion of Fieldwork	<u>\$ 102</u>	<u>\$ 6,108</u>	<u>\$ 1,011</u>	<u>\$ 209</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
RONDAL SHIRLEY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
April 22, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	885,707
4% on	\$	1,226,348

** Special Taxing Districts:

Library District	\$	43
Ambulance District		165
Extension District		4,340
Soil Conservation District		<u>1,560</u>
Due Districts	\$	<u><u>6,108</u></u>

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

April 22, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 22, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
April 22, 2005
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 17, 2004 through April 22, 2005.

Note 4. Interest Income

The Metcalfe County Sheriff earned \$588 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of November 9, 2005, the Sheriff is owed \$15 in interest from the school district and owes \$80 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Metcalfe County Sheriff collected \$12,486 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of November 9, 2005, the Sheriff owes \$986 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Metcalfe County Sheriff collected \$375 of advertising costs and \$2,070 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of November 9, 2005, the Sheriff still owes the advertising costs and advertising fees to his fee account.

Note 7. Deficit Balance

Based on available records, there is a \$653 deficit in the Sheriff's official tax account. This deficit is a result of undeposited 2004 tax receipts. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule. On November 9, 2005, the Sheriff deposited \$653 from personal funds into the 2004 tax account to eliminate the deficit.

METCALFE COUNTY
 RONDAL SHIRLEY, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 22, 2005

Assets

Cash in Bank (All Tax Accounts)		\$	1,026
Prior Year Receivables:			
Due From Fee Account for 941 Payment	\$	137	
Metcalf County Fiscal Court		93	
Kentucky State Treasurer		37	
Metcalf County Board of Education		91	
Library District		51	
Ambulance District		15	
Extension District		69	
Soil Conservation District		8	501
Current Year Receivables:			
Amount Due from Fee Account for 941 Payment	\$	474	
Metcalf Board of Education (Interest)		15	
Tax Comissions Due From Sheriff's Fee Acct		8,768	9,257
Total Assets			10,784

Liabilities

Prior Year Unpaid Obligations:			
Interest Due Sheriff's Fee Account	\$	55	
Tax Commissions Due Fee Account		235	
Tax Commissions Due School		83	373
Unpaid Obligations:			
Other Taxing Districts-			
Kentucky State Treasurer	\$	209	
Metcalf County Fiscal Court		102	
Metcalf Board of Education		1,011	
Library District		43	
Ambulance District		165	
Extension District		4,340	
Soil Conservation District		1,560	
Refunds Due Taxpayers		123	
Interest Due Sheriff's Fee Account		80	
Sheriff's 10% Add-On Fee Due Fee Account		986	
Advertising Costs Due Sheriff's Fee Account		375	
Advertising Fees Due Sheriff's Fee Account	\$	2,070	
Total Unpaid Obligations		\$	11,064
Total Liabilities			11,437
Total Fund Deficit as of April 22, 2005		\$	(653)

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COMMENTS AND RECOMMENDATIONS

METCALFE COUNTY
RONDAL SHIRLEY, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 22, 2005

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff Should Eliminate The Deficit In The Tax Account

Based on available records, there was a deficit of \$653 in the Sheriff's official tax account. This resulted primarily from undeposited 2004 tax receipts. The auditors noted that deposits were not made timely and in some instances deposits were made over two months after date collected. We recommend the Sheriff eliminate the deficit with a deposit of \$653 from personal funds and, in the future, deposit all tax receipts on a daily basis along with reconciling daily collection reports to deposits.

Sheriff's Response:

Deposit will be made immediately from personal funds of Sheriff and deposits are being made daily now and in future.

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties over receipts and expenditures. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to help offset this internal control weakness:

- The Sheriff should periodically compare daily bank deposits with the daily checkout sheet and then compare the daily checkout sheet the receipts ledger. Any differences should be reconciled on paper and kept for records. The Sheriff could document his comparisons by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts and disbursements ledger. Any differences should be reconciled on paper and kept for records. This could be documented by initialing the monthly tax reports, receipts ledger, and disbursements ledger.
- The Sheriff should recount and deposit the cash daily. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should have dual signatures on all disbursement checks.

Sheriff's Response:

None.

PRIOR YEAR:

The prior year audit report contained the following comment:

- Lacks Adequate Segregation Of Duties

This finding has not been corrected and is repeated in the current year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Don Butler II, Metcalfe County Judge/Executive
Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Metcalfe County Sheriff's Settlement - 2004 Taxes as of April 22, 2005, and have issued our report thereon dated November 9, 2005. The Sheriff's settlement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metcalfe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Deficit In The Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Metcalfe County Sheriff's Settlement - 2004 Taxes as of April 22, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no known instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 9, 2005

